Chapter 9

Intra-Ethnic Business Networks in the Gurage Footwear Industry in Ethiopia

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ABSTRACT

Drawing on insights from social network theory, the socio-economic and cultural dimensions of intra-ethnic business networks are examined for the Gurage, an ethnic group in Ethiopia. This study also examines the extent of Chinese impacts on the footwear industry of Ethiopia. A qualitative approach based on in-depth interviews was utilized in order to assess intra-ethnic business networks, while a quantitative approach, based on a cross-sectional survey, was employed to collect background data, to assess the impact of Chinese imports on local footwear producers and to identify potential cases for in-depth interviews. Gurage use ethnic networks to mobilize resources and opportunities, which in turn contributes to their success in the business. In response to the threats of Chinese imports on production activities and social capital of local footwear enterprises, firms downsized or stopped business, or resorted to other alternatives.

INTRODUCTION

In the current literature, focus of the majority of studies on ethnic entrepreneurship has been on success factors of certain immigrant minority groups in the urban fringes of developed countries (Portes & Bach, 1985; Basu, 1998; Light & Bonacich, 1988; among many others). The studies put emphasis on the relation between ethnicity and entrepreneurship as manifested in various facets of social capital such as structural, cognitive and relational (Liao & Welsch, 2005).

There are also some works in Africa dealing with successful cases of certain ethnic businesses, for instance, the Tanzanian wood business (in Kristiansen, 2004) and the Ethiopian shoe industry (in Bigsten & Söderbom, 2006; Gunning & Mengistae, 2001; Sonobe,
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Akoten, & Otsuka, 2009; Tegegne, 2009). The Tanzanian wood business study identified the importance of ‘sub-cultures’ as source of social capital through which entrepreneurial resources such as trust, social networks and skills can be promoted or strengthened, thereby leading to entrepreneurial success. The Ethiopian case took up aspects of productivity and competitiveness in the footwear industry.

Although there have been some studies relating entrepreneurship to socio-cultural values in Africa and other part of the world, there is a dearth of studies on exploring the socio-economic and cultural dimensions of intra-ethnic business networks in Ethiopia. The studies to date see the ethnic business and the value chain in a functionalistic manner. A shift in focus is needed in order to fully delineate how networks are being created and maintained within value chains, as well as what role trust and traditional social organizations play and how people become close to one another and achieve a level of cooperation within such networks.

Drawing on insights from social network theory (Granovetter, 1973, 1985) and literature on value chain, this paper seeks to fill this gap by unpacking social networks in order to highlight the investment people make in both material, as well as the social, resources in their efforts to make network connections work in their favor and gain competitiveness in the face of ever increasing liberalization and economic globalization (e.g. the Chinese impacts).

BACKGROUND

Linking Ethnicity and Entrepreneurship

The phenomenon of ethnic entrepreneurship has got considerable attention since 1880 after observing the dominance of immigrant-owned small businesses in the United States of America and more recently in Europe (Barret et al., 1996). In both cases, the motive for ethnic minority businesses can generally be related to severe labour shortages generated by unprecedented economic growth.

Waldinger et al. (1990a, p.13) define ethnic entrepreneurship as, “a set of connections and regular patterns of interaction among people sharing common national background or migration experiences”. Likewise, an ethnic group can be defined as, “a segment of a larger society whose members are thought, by themselves or others, to have common origin and to share important segments of a common culture and who, in addition, participate in shared activities in which the common origin and culture are significant ingredients” (Yinger, 1985, p.159).

Ethnic entrepreneurship studies are conducted in many parts of the world (e.g., Desai & Coelho, 1980; Fernandez & Liu, 1986; Light & Bonacich, 1988; Helweg & Helweg, 1990; Haller, 2004; among many other). The studies mainly cover issues related to the role of ethnic entrepreneurship in shaping the structure of modern economies (Aldrich & Waldinger, 1990; Kilby, 1971; Leff, 1979a), the role of trust and cultural values, economic, political and social dimensions of network structures in ethnic entrepreneurship and organizational culture in ethnic enterprises (Werbner, 1984; Barr, 2000; Murphy, 2002; Fafchamps, 1998; Kristiansen, 2004). However, much emphasis has been directed to the role of ethnic entrepreneurship for a successful economic venture (Harper, 2003).

The role of trust and cultural values in ethnic entrepreneurship has got attention only recently (Uzzi, 1997; Nadvi, 1999; Schmitz, 1995). Studies in sub-Saharan Africa have explored the role of social capital and trust during entrepreneurship activities (e.g., Murphy, 2002; Kristiansen, 2004); factors influencing successful firms (Bigsten & Söderbom, 2006; Gunning & Mengistae, 2001;